

# **REPORT OF THE AUDITOR-GENERAL TO THE NORTH WEST PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF MOLOPO LOCAL MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2008**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Introduction**

1. I have audited the accompanying financial statements of the Molopo Local Municipality which comprise the statement of financial position as at 30 June 2008, statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages [xx] to [xx].

### **Responsibility of the accounting officer for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy note 1 to the financial statements and in the manner required by the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act, 2007 (Act No. 1 of 2007) (DoRA). This responsibility includes:
  - designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
  - selecting and applying appropriate accounting policies
  - making accounting estimates that are reasonable in the circumstances.

### **Responsibility of the Auditor-General**

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing and *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance on whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

6. An audit also includes evaluating the:
- appropriateness of accounting policies used
  - reasonableness of accounting estimates made by management
  - overall presentation of the financial statements.
7. Paragraph 11 *et seq.* of the Statement of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the Molopo Local Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.
8. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Basis of accounting**

9. The municipality's policy is to prepare financial statements on the basis of accounting determined by National Treasury, as set out in accounting policy note 1 to the financial statements.

### **Opinion**

10. In my opinion the financial statements present fairly, in all material respects, the financial position of the Molopo Local Municipality as at 30 June 2008 and its financial performance and cash flows for the year then ended, in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy note 1 to the financial statements and in the manner required by the MFMA and DoRA.

### **Emphasis of matters**

Without qualifying my audit opinion, I draw attention to the following matters:

### **Highlighting critically important matters presented or disclosed in the financial statements**

Unauthorised, irregular or fruitless and wasteful expenditure as well as material losses through criminal conduct

11. As disclosed in note 18.3 to the financial statements, irregular expenditure to the amount of R197 000 was incurred, as a proper supply chain management process had not been followed.
12. As disclosed in note 18.3 to the financial statements, irregular expenditure to the amount of R187 055 was incurred, as the mayor used a council vehicle for private purposes.

## OTHER MATTERS

Without qualifying my audit opinion, I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

### Matters of governance

13. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of certain key governance responsibilities, which I have assessed as follows:

Matter of governance	Yes	No
<b>Audit committee</b>		
• The municipality had an audit committee in operation throughout the financial year.	X	
• The audit committee operates in accordance with approved, written terms of reference.	X	
• The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.		X
<b>Internal audit</b>		
• The municipality had an internal audit function in operation throughout the financial year.	X	
• The internal audit function operates in terms of an approved internal audit plan.	X	
• The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.		X
<b>Other matters of governance</b>		
• The annual financial statements were submitted for audit as per the legislated deadlines (section 126 of the MFMA).		X
• The financial statements submitted for audit were not subject to any material amendments resulting from the audit.		X
• The annual report was submitted to the auditor for consideration prior to the date of the auditor's report.		X
• No significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.	X	
• The prior year's external audit recommendations have been substantially implemented.	X	
<b>Implementation of Standards of Generally Recognised Accounting Practice (GRAP)</b>		
• The municipality submitted an implementation plan, detailing progress towards full compliance with GRAP, to the National Treasury and the relevant provincial treasury before 30 October 2007.		X
• The municipality substantially complied with the implementation plan it submitted to the National Treasury and the relevant provincial treasury before 30 October 2007, detailing its progress towards full compliance with GRAP.		X
• The municipality submitted an implementation plan, detailing further progress towards full compliance with GRAP, to the National Treasury and the relevant provincial treasury before 31 March 2008.		X

## **Unaudited supplementary schedules**

14. The municipality provided supplementary information in the financial statements on whether resources were obtained and used in accordance with the legally adopted budget, in accordance with GRAP 1 *Presentation of Financial Statements*. The supplementary budget information set out on pages [xx] to [xx] does not form part of the financial statements and is presented as additional information. Accordingly I do not express an opinion thereon.

## **OTHER REPORTING RESPONSIBILITIES**

### **REPORT ON PERFORMANCE INFORMATION**

15. I have reviewed the performance information as set out on pages [xx] to [xx].

#### **Responsibility of the accounting officer for the performance information**

16. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

#### **Responsibility of the Auditor-General**

17. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* and section 45 of the MSA.
18. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.
19. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

### **Audit findings (performance information)**

#### **Non-compliance with regulatory requirements**

20. Content of integrated development plan

The integrated development plan of the municipality did not include the key performance indicators and performance targets determined in terms of its performance management system, as required by section 26(i) of the MSA.

21. Lack of reporting on all predetermined objectives in the annual report

I draw attention to the fact that the municipality has not reported on all the key performance indicators and targets set for each development priority and objective, as required by section 41(1)(c) of the MSA.

22. Existence and functioning of a performance audit committee

The audit committee did not review the municipality's performance management system and make recommendations in this regard to the council of the municipality.

23. Internal auditing of performance measurements

The municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal audit processes, as required in terms of section 45 of the MSA.

**Lack of sufficient appropriate audit evidence**

24. Lack of systems generating performance information

I was unable to obtain sufficient appropriate audit evidence in relation to the performance information of the municipality, as the system used for generating information on the indicators and targets were not adequate for purposes of the evaluation.

**APPRECIATION**

25. The assistance rendered by the staff of the Molopo Local Municipality during the audit is sincerely appreciated.

*Auditor-General*

Rustenburg

5 December 2008



AUDITOR - GENERAL